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C O N F I D E N T I A L SECTION 01 OF 03 SHANGHAI 000428

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SUBJECT: SHANGHAI ACADEMICS COMMENT ON CHINA'S RELATIONS WITH LATIN AMERICA: CHAVEZ VISIT, TAIWAN, INVESTMENT CLIMATE

REF: A) SHANGHAI 397; B) BEIJING 3760

CLASSIFIED BY: CHRISTOPHER BEEDE, POL/ECON CHIEF, US CONSULATE SHANGHAI, DEPT OF STATE.

REASON: 1.4 (b), (d)

(U) CLASSIFIED BY POL/ECON SECTION CHIEF CHRISTOPHER BEEDE FOR REASONS 1.4 (B) and (D).

¶11. (C) Summary: China's strategy in Latin America is shaped by its desire for natural resources and not by any geopolitical ambitions, according to Shanghai scholars, and China does not want to raise U.S. suspicion about China's motives in the region. Political competition with Taiwan in Latin America has dissipated, and China is more interested in establishing pragmatic economic relations with Latin American countries rather than continuing the "cash diplomacy" of the past. Venezuelan President Hugo Chavez is actively courting China as a potential political and economic ally, but China is taking a cautious approach, mainly out of consideration for its relations with the United States. The scholars thought the Chinese media was more low-key about the visit than expected. China's relations with other Latin American countries have been mixed, as Chinese investment has been short of recipient countries' expectations. Chinese companies are cautious about investing in Latin America due to concerns over political instability, rising nationalism, and strong trade unions. Many Chinese companies find it easier to invest in Africa. End summary.

¶12. (C) Poloff met with Niu Haibin, Deputy Director of the Center for Latin America Studies, Shanghai Institute for International Studies (SIIS), and Zhang Jiazhe, Director of the Center for Developing Countries Studies, Shanghai Academy of Social Sciences (SASS) in late September to discuss China's relations with Latin America.

Strategic Interests on Both Sides

¶13. (C) China is primarily interested in accessing Latin America's natural resources - oil, minerals (especially copper and iron), and agricultural products (primarily soy) - according to Niu and Zhang. Bilateral trade increased from about US\$70

billion in 2006 to over US\$100 billion in 2007. The growing focus on Latin America is part of China's overall goal to secure natural resources from diverse parts of the world. Latin American countries are also looking to diversify their economic ties and reduce their dependence on the United States. They see China as a potential source of investment, especially in infrastructure, said Niu.

¶4. (C) China's actions in Latin America must be viewed within the context of China's relations with the United States, according to the scholars. China acknowledges U.S. strategic interests in the region and will avoid doing anything that would raise U.S. suspicions about China's motives. Unlike Russia, China harbors no geopolitical ambitions in the region, they stated.

Pragmatic Approach to Taiwan Issue

¶5. (C) Taiwan President Ma Ying-jeou's "diplomatic truce" initiative helped dissipate some of the political competition between the PRC and Taiwan in Latin America. Both scholars believe the "cash diplomacy" of the past benefited neither side, and the PRC wants to take a more pragmatic approach in building economic relations with Latin American countries, even those with which it has no official relations.

¶6. (C) Paraguay's desire to switch recognition presents China with a conundrum, but China has been very "cautious" in its response, said both scholars. Zhang mentioned how China did not officially respond to the Paraguayan President's request to attend the Beijing Olympics in August out of consideration for Taiwan. Having one or two countries switch recognition is "not a significant thing" for the PRC. Rather, Zhang thinks

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maintaining the current momentum of positive cross-Strait relations is of greater importance to the PRC (Ref A).

Chavez Courting China

¶7. (C) China has been deliberately cautious in its relations with Venezuela, mainly out of consideration for the United States, according to the scholars. On the other hand, Venezuelan President Hugo Chavez has been actively courting China, making his fifth visit to China this month. He wants to form a political alliance and deepen economic ties, particularly in the energy sector. (Note: Chinese President Hu Jintao and Chavez announced on September 24 that they would further expand their energy cooperation. End note.) However, the scholars think there are still significant obstacles to increasing oil supplies from Venezuela, such as the high cost of shipping and difficulty in refining Venezuelan crude oil (Ref B).

¶8. (C) Zhang thought the local media coverage of Chavez's visit this month was more "low-key" than expected, perhaps an indication of the Chinese Government's reluctance to place a spotlight on this relationship. Although China supports Chavez' socialist ideas in principle, it is perturbed by some of his actions internationally, especially towards the United States, and shares some concerns with the United States on issues like Chavez's calls for higher oil prices. Venezuela's military cooperation with Russia also raises concerns, not so much because it poses a direct threat to China, but because it is "not helpful for regional harmony," said Zhang.

Mixed Relations with Individual Countries

¶9. (C) Many Latin American countries have mixed relations with China, noted the scholars. Brazil, which is China's most important bilateral partner in the region, exports a large volume of agricultural products to China. The two countries also cooperate in high-tech development of small planes and satellites. However, Brazil is not happy with China's lack of support for its bid for a permanent seat on the United Nations Security Council, and it believes China should be investing more in Brazil's infrastructure, according to Niu.

¶10. (C) Both scholars believe Argentina has good political relations with China but is "disappointed" at the current level of Chinese investment, especially in infrastructure. Niu thinks China and Mexico have close political relations but are economic competitors rather than partners. However, Zhang stated that economic competition between China and Mexico has soured their political relations. Cuba and China have good political relations for ideological reasons, but the relationship is becoming less important to China since there is little economic benefit for China. The scholars are optimistic about relations with Chile, which has become an increasingly important economic partner for China. The two countries signed a Free Trade Agreement in 2006, and China is now Chile's top trading partner. Paraguay and China are developing closer economic ties, but the lack of official relations is proving to be an obstacle for China's desire for closer relations with MERCOSUR, said Zhang.

Chinese Companies Cautious

¶11. (C) Most of the Chinese companies (both private and state-owned enterprises) invested in Latin America are involved in the energy and natural resource sectors, according to the scholars. The Bank of China also has a presence, but its clients are mostly Chinese companies in the region. Aside from these sectors, the scholars believe Chinese companies have been cautious about investing in the region for various reasons. Foremost are concerns about political stability. Chinese companies are concerned that, since most Latin American countries are democracies, investment policy could change when administrations change. Rising nationalism in the region is also a concern, as some key industries in Venezuela, Bolivia, and other countries have been nationalized in recent years. Zhang thinks that many Chinese companies find it easier to invest in Africa. Both continents have natural resources that China covets, but Africa is still willing to accept investments without the difficulties associated with rising nationalistic sentiment and strong labor unions, characteristics of a "more developed" Latin America.

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Comment

¶12. (C) There are very few academics in Shanghai who specialize in Latin America issues. According to both Niu and Zhang, there are only two or three in Shanghai. Niu noted that the SIIS Latin America Studies Department was established only two years ago. They have not yet found a "suitable" candidate to serve as department director. Zhang of SASS lamented the lack of up-and-coming young scholars in this field. According to him, he is the only one at SASS who specializes in Latin America. However, he has not been to Latin America in several years due to the institution's tight budget and their lack of focus on this area. Although SIIS will add a Latin America research fellow next year, SASS has no plans to add new staff for Latin America studies.

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